

Message Text

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ORIGIN EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

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TO AMEMBASSY SEOUL

C O N F I D E N T I A L STATE 032745

E.O. 11652: GDS

TAGS: ETRD, KS

SUBJECT: COTTON CONTRACT PROBLEM

REF: SEOUL 586

1. REFTEL REQUESTED INFO ON AVAILABILITY OF USANCE CREDITS. ACCURATE INFORMATION DIFFICULT TO OBTAIN DUE SCATTERED SOURCES FOR PRIVATE CREDIT AND CONFIDENTIALITY SURROUNDING LARGE LOANS. HOWEVER, WE BELIEVE APPROXIMATELY 30-35 MILLION DOLLARS OF PRIVATE CREDIT IS AVAILABLE AT ABOUT 11 PERCENT OR 3 PERCENT ABOVE EURODOLLAR RATE. SINCE ROKG HAS PROHIBITED MILLS FROM BORROWING IF INTEREST IS MORE THAN 2 PERCENT ABOVE EURODOLLAR RATE, MILLS HAVE BEEN PRESSURING U.S. SHIPPERS TO PAY DIFFERENCE IN INTEREST (ABOUT 1 PERCENT) AND CHARGES WHICH MAY RUN 4 TO 5 PERCENT OF THE LOAN. IT APPEARS THAT ABOUT 17 MILLION DOLLARS
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OF PRIVATE CREDIT HAS BEEN UTILIZED.

2. OUR BEST JUDGMENT IS THAT PRIVATE CREDIT IS AVAILABLE,
BUT DUE TO THE VERY HIGH INTEREST AND CHARGES U.S. SHIPPERS

DO NOT SEE THIS APPROACH AS AN IDEAL SOLUTION. THERE ARE

ALSO INDICATIONS THAT IN SOME CASES EVEN THOUGH U.S.
SHIPPERS OBTAINED CREDIT, KOREAN MILLS WERE STILL UN-
WILLING TO UTILIZE PRIVATE FINANCING AT PRESENT
INTEREST RATES.

3. REQUEST EMBASSY URGE ROKG TO LIFT CEILING ON USANCE
INTEREST RATE. WE BELIEVE THIS WOULD ENCOURAGE USE
OF PRIVATE CREDIT. IN ADDITION, ROKG SHOULD BE URGED TO
ALLOW MILLS TO USE SECOND 50 MILLION DOLLARS CCC CREDIT
AS IT BECOMES AVAILABLE. TO EXPEDITE AVAILABILITY OF
THESE CREDITS EVIDENCE THAT MATCHING PRIVATE FUNDS ARE
BEING UTILIZED TO OPEN L/C'S SHOULD BE PROVIDED AS IT
BECOMES AVAILABLE IN ACCORD WITH UNDERSTANDING CONTAINED
IN EMBASSY LETTER OF NOVEMBER 29, 1974. INGERSOLL

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